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PREPARED TESTIMONY OF J. ALLEN AKKERMAN, PRESIDENT
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VALLEY PRODUCTION CREDIT ASSOCIATION
BEFORE THE CAL-FED BAY-DELTA PROGRAM

September 14, 1999, at Visalia, California

Thank you for this opportunity to provide public comment. I realize you folks and others are charged with significant responsibility to insure an equitable and balanced approach to meeting the water needs of an extremely important industry to this State, as well as to cities and the environment. Having said that, I believe that one of the reasons for this large crowd here tonight is because not all is black and white, in what we hear and read, especially as one tries to understand the impact of the preferred Cal-Fed alternative will have on the farming and urban populations.

My name is Joe Akkerman. I serve as joint president for two lending organizations, collectively referred to as Valley Farm Credit, whose charters are to serve the sound and constructive credit needs of farmers and ranchers.

Valley Farm Credit is made up of a Federal Land Bank Association, a long-term mortgage lender, and the Production Credit Association, which provides commercial and intermediate term loans to agricultural producers and related businesses throughout the greater farming and ranching communities of the Southern San Joaquin Valley. We are part of a nationwide Farm Credit System, and other System institutions serve other parts of California and share equally in the concerns about the impact Cal-Fed decisions will have on the future of this State's agriculture.

As cooperative lending institutions, owned and controlled by our member/customers, we have more than a passive interest in what might result from any change in the priority usage of water. The resource in question here, is one that farmers, in good faith and at a cost, have come to historically rely upon for their livelihoods and for their contributions to society.

Farmers and ranchers, without doubt, are the initial and greatest risk takers when it comes to the production of food and fiber. Risk takers next in line are the farm related businesses who provide goods and services needed to keep farming a viable part of our overall economic system. Banking institutions that have a significant involvement in lending to farmers, such as those within the Farm Credit System, fall into this second category.

On a combined basis, the organizations I represent have loan assets totaling almost three-quarters of a billion dollars to some 2,000 customers, primarily located in Kings, Tulare and Kern County. Statewide, that investment is significantly greater. Over half of this loan volume is in long-term real estate loans, some extending out to 25 years into the future. You can quickly realize that if you add to a portfolio of this size, the ag loan portfolios of other lenders, there is a tremendous investment in California agriculture, all at some level of risk, depending on final results of the Cal-Fed decision making process. Recognizing that some of that investment actually belongs to the lenders, most of it, comes from various public, private and even government investment sources. These investments are subject to significant risk of loss, should a viable agricultural economy not continue because of a reduced, or in some cases, full elimination of surface water supplies on farms related to those investments. That risk, should it materialize, will be born to a large degree by those investment sources far removed from the farming communities.

Many of our farmer borrowers have expressed concern over the implications of continued reductions in supplies of irrigation water. Long-term access to irrigation water is a major stabilizing influence on production agriculture. Reduction in the assurance of a stable and adequate water supply adds new risk to farming and that definitely will affect the terms, conditions, and in many cases, the willingness of banking institutions to provide a needed and continuous stream of capital necessary to keep this industry viable.

Although opinion varies on the degree to which agricultural lending would be affected by a reduction in water supplies, most everyone agrees that the terms and availability of long-term, farm real estate loans would be most affected. Consequently, land values are adversely impacted and when that happens, we all know the economic domino effect that permeates through all segments of our State's economy and the livelihoods of many.

A case in point! If you were in the business of providing long-term real estate loans on farm property, and by long-term I mean 15 to 30 year commitments, since that's the length of time most farmers need to pay back a reasonable mortgage; and let's suppose that the property involved was 50% or more reliant upon water sources than could be subject to partial or total elimination as might result from a Cal-Fed chosen alternative, would you "today" risk an institution's, or even your own investment funds, by making a long-term farm mortgage loan?

Farmland values largely depend on the degree to which the expected income stream generated by the land is affected. When a producer has a water source that can be relied upon with some assurance, that assurance is capitalized into the value of the farmland. Today, anything that impacts that assurance quickly translates into reduced land values.

We would ask that these significant economic realities be fully analyzed as decisions are made under the Cal-Fed process.

I cannot speak for other lenders, but we in Farm Credit take vary seriously what appears to be a forcing of the "beginning of the end" for many agricultural producers. It does not have to be this way. If the Cal-Fed process would just switch the planning emphasis to storage development and improved conveyance, all of which can be shared equitably, and away from the theory of transfers that cannot possibly create new sources of water, everyone becomes a winner while protecting our natural resources. I would end by saying, please keep in mind what the farmer does for you and me, every single day of our lives.

Thank you.

B. Allen Ackerman